Pictet Group
Annual report 2017

PICTET
1805

CONTENTS

KEY FIGURES

CHF thousands	2017	2016
Consolidated income statement		
Operating income	2 522 652	2 176 811
Total expenses before tax	1 786 608	1 634 397
Operating result	736 044	542 414
Consolidated profit for the year	572 497	422 063
Cost/income ratio	71%	75%

CHF thousands	31.12.2017	31.12.2016
Consolidated balance sheet		
Total assets	37 287 778	38 561 408
Total equity	2 847 839	2 586 064
Basel III CET1 solvency ratio	20.2%	20.4%
Basel III Total solvency ratio	20.2%	20.4%
Liquidity coverage ratio (LCR)	144%	166%
Return on equity	21.1%	16.3%
Leverage ratio	5.3%	5.1%
Other indicators		
Assets under management or custody (CHF bn)	509	462
Staff (in FTE)	4 220	4 130
in Switzerland	2 659	2 645
abroad	1 561	1 485
Banque Pictet & Cie SA's rating FitchRatings/Moody's	AA-/Aa2	AA-/Aa2

2017 AND PERSPECTIVES

It is a pleasure to present the Pictet Group's annual report for the year 2017, which has been the most successful in our history in terms of assets under management and net income. At 31 December 2017 our assets under management reached an all-time high of CHF 509 billion, while the Group's operating income increased by 16 per cent to over CHF 2.5 billion. At the end of 2017, the number of full-time equivalent employees stood at 4,220. While positive market conditions certainly contributed to our strong results, we also enjoyed the benefits of good investment performance, high service quality and cost control.

On 27 November 2017, we announced the appointment as Partner of Boris Collardi, who since 2009 had served as CEO of Julius Baer Group Ltd. On 1 June 2018 he will become the seventh member of the Board of Partners and, together with Rémy Best, will hold joint responsibility for Pictet Wealth Management. The most recent direct election to the Board of Partners was in 1998 (Renaud de Planta) and before that in 1975 (Pierre Lardy).

Boris Collardi's appointment comes at a time when the prospects for wealth and asset management globally have never been more promising, nor more challenging. The year 2017 was marked by political, regulatory and technological change, without noticeably impeding the progress of global markets. In Europe, rising populist movements have been balanced to some extent by the election of centrist Emmanuel Macron as French president. In the US, President Trump passed the first major tax reform in 20 years. Equity markets have both anticipated and welcomed his tax cuts and promises of deregulation. On the geopolitical side, Brexit negotiations are proceeding, if haltingly, towards a conclusion; we are preparing for possible regulatory impact.

Separately, it took two years of intense preparation to get ready for the EU's MiFID II rules introduced on 1 January 2018. This regulation, intended to improve investor protection and raise transparency, has proved costly and complex for all parties. Still, those that adapt best may gain some competitive advantage.

It is impossible not to recognise the digital transformation of our world, whether in the rise of Bitcoin and other cryptocurrencies, the power of algorithms, or the advances in artificial intelligence. All will alter radically the way we interact with our clients. For 2018 one-quarter of our global IT budget has been allocated to projects associated with the digital revolution, overseen by the newly-created position of Chief Digital Officer.

We have also decided to reinforce our product offering by establishing an in-house expertise in real assets, and in particular in European real estate. We expect this initiative to complement the demand for traditional financial assets in the coming years.

On the human side, we are strengthening existing programmes aimed at promoting mobility, improving feedback mechanisms and raising diversity and inclusion across our workforce.

We believe we can distinguish ourselves from our competitors through our culture, our traditions, our adaptability and our balance of business. The principles on which Pictet has thrived over two centuries — independence, partnership, long-term thinking, responsibility and entrepreneurial spirit — have not changed. But we have decided to make our underlying purpose more explicit, in the following words: ‘to build responsible partnerships’ —with our clients, colleagues, communities and the companies in which we invest, in order to safeguard and transmit wealth, of all kinds, in the service of the real economy.

I would like to take the opportunity to thank our clients for their loyalty and our employees for their commitment and their contribution to the business that we have today. I am confident that we have a robust and healthy base on which to build our future.

Nicolas Pictet

Senior Partner

CONSOLIDATED BALANCE SHEET

Assets (CHF thousand)	Notes	31.12.2017	31.12.2016
Liquid assets		16 258 114	14 186 181
Amounts due from banks	10;16	1 322 792	1 768 531
Amounts due from securities financing transactions	1	619 108	997 000
Amounts due from customers	2;16	8 360 086	7 696 811
Trading portfolio assets	3	79 453	79 083
Positive replacement values of derivative financial instruments	4	1 059 140	1 526 329
Other financial instruments at fair value	3	529 280	567 842
Financial investments	5;10	7 972 585	10 729 832
Accrued income and prepaid expenses		434 081	329 741
Non-consolidated participations	6;7	6 950	8 396
Tangible fixed assets	8	459 051	477 702
Other assets	9	187 138	193 960
Total assets		**37 287 778**	**38 561 408**
Total subordinated claims		629	475

Liabilities (CHF thousands)	Notes	31.12.2017	31.12.2016
Amounts due to banks	16	882 388	1 235 394
Liabilities from securities financing transactions	1	1 332 492	776 523
Amounts due in respect of customer deposits	11;16	29 368 778	30 812 229
Trading portfolio liabilities	3	943	9 064
Negative replacement values of derivative financial instruments	4	1 049 731	1 520 223
Liabilities from other financial instruments at fair value	3;13	566 202	580 910
Accrued expenses and deferred income		797 182	608 623
Other liabilities	9	219 328	249 234
Provisions	14	222 895	183 144
Total equity		2 847 839	2 586 064
Equity owners' contribution	15;17	684 922	765 541
Capital reserve		11 664	11 664
Retained earnings reserve		1 595 842	1 394 565
Currency translation reserve		(17 086)	(7 769)
Consolidated profit for the year		572 497	422 063
Total liabilities		**37 287 778**	**38 561 408**
Total subordinated liabilities		-	-

Consolidated off-balance-sheet transactions

CHF thousands	Notes	31.12.2017	31.12.2016
Contingent liabilities	2;23	5 584 718	4 474 851
Irrevocable commitments	2	21 264	21 696

CONSOLIDATED INCOME STATEMENT

CHF thousand	Notes	2017	2016	Change
Interest and discount income	27	177 712	93 016	
Interest and dividend income from financial investments		68 881	108 541	
Interest expense	27	9 960	(2 917)	
Gross result from interest operations		**256 553**	**198 640**	**29%**
Changes in value adjustments for default risks and losses from interest operations	14	1 076	(958)	
Subtotal net result from interest operations		**257 629**	**197 682**	**30%**
Commission income from securities trading and investment activities		2 771 114	2 403 324	
Commission income from lending activities		4 309	4 463	
Commission income from other services		21 769	17 044	
Commission expenses		(729 475)	(637 327)	
Subtotal result from commission business and services		**2 067 717**	**1 787 504**	**16%**
Result from trading activities and the fair value option	26;27	**191 178**	**185 581**	**3%**
Income from other non-consolidated participations		3 753	4 066	
Result from real estate		2 305	1 890	
Other ordinary income		71	88	
Other ordinary expense		(1)	-	
Subtotal other result from ordinary activities		**6 128**	**6 044**	**1%**
Personnel expenses	28	(1 274 505)	(1 129 964)	
General and administrative expenses	29	(430 823)	(443 675)	
Subtotal operating expenses		**(1 705 328)**	**(1 573 639)**	**8%**
Value adjustments on participations, depreciation and amortisation of tangible fixed assets and intangible assets	6;8	(48 510)	(44 395)	
Changes to provisions and other value adjustments and losses	30	(32 770)	(16 363)	
Operating result		**736 044**	**542 414**	**36%**
Extraordinary income	30	390	1 551	
Extraordinary expenses	30	(20)	(130)	
Taxes	32	(163 917)	(121 772)	
Consolidated profit of the period		**572 497**	**422 063**	**36%**

CONSOLIDATED CASH FLOW STATEMENT

CHF thousand	2017		2016	
	CASH INFLOWS	CASH OUTFLOWS	CASH INFLOWS	CASH OUTFLOWS
Cash flow from operating activities (internal financing)				
Consolidated result of the year	572 497	-	422 063	-
Value adjustments on participations, depreciation and amortisation of tangible fixed assets and intangible assets	48 510	-	44 395	-
Provisions and other value adjustments	47 537	7 786	23 521	10 258
Change in value adjustments for default risks and losses	-	1 076	1 000	82
Accrued income and prepaid expenses	-	104 340	46 514	-
Accrued expenses and deferred income	188 559	-	-	25 609
Other items	-	23 084	120 569	-
Previous year's dividends	-	226 296	-	176 068
Subtotal	**857 103**	**362 582**	**658 062**	**212 017**
Cash flow from shareholders' equity transactions				
Equity owners' contribution	-	80 619	-	247 397
Recognised in reserves	-	3 807	-	16 982
Subtotal	**-**	**84 426**	**-**	**264 379**
Cash flow from transactions in respect of participations, tangible fixed assets and intangible assets				
Participations	1 556	110	1 057	1 533
Other tangible fixed assets	-	29 859	457	48 654
Mortgages on own real estate	-	-	-	200 000
Subtotal	**1 556**	**29 969**	**1 514**	**250 187**

CHF thousand	2017		2016	
	CASH INFLOWS	CASH OUTFLOWS	CASH INFLOWS	CASH OUTFLOWS
Cash flow from banking operations				
Medium- and long-term business (>1 year)				
Amount due from customers	17 432	-	-	78 440
Financial investments	-	269 098	10 566 892	-
Short-term business (<1 year)				
Amount due to banks	-	353 006	-	561 593
Liabilities from securities financing transactions	555 969	-	-	1 833
Amounts due in respect of customer deposits	-	1 443 451	-	1 179 834
Trading portfolio liabilities	-	8 121	-	25 054
Negative replacement values of derivative financial instruments	-	470 492	-	470 654
Liabilities from other financial instruments at fair value	-	14 708	-	290 696
Amount due from banks	445 739	-	508 840	-
Amount due from securities financing transactions	377 892	-	907 000	-
Amount due from customers	-	679 631	-	1 447 989
Trading portfolio assets	-	370	57 019	-
Positive replacement values of derivative financial instruments	467 189	-	435 182	-
Other financial instruments at fair value	38 562	-	292 576	-
Financial investments	3 026 345	-	-	1 186 827
Liquid assets	-	2 071 933	-	7 457 582
Subtotal	**4 929 128**	**5 310 810**	**12 767 509**	**12 700 502**
Total	**5 787 787**	**5 787 787**	**13 427 085**	**13 427 085**

STATEMENT OF CHANGES IN EQUITY

CHF thousand	EQUITY OWNERS' CONTRIBUTION	CAPITAL RESERVE	RETAINED EARNINGS RESERVE	CURRENCY TRANSLATION RESERVES	RESULT OF THE PERIOD	TOTAL
Equity at 1.1.2017	765 541	11 664	1 394 565	(7 769)	422 063	2 586 064
Capital increase/decrease	(75 000)	-	-	-	-	(75 000)
Other contributions/other capital paid in	(5 619)	-	5 619	-	-	-
Currency translation differences	-	-	-	(9 317)	-	(9 317)
Dividends and other distributions	-	-	195 768	-	(422 063)	(226 295)
Other allocations to (transfers from) the other reserves	-	-	(110)	-	-	(110)
Consolidated profit	-	-	-	-	572 497	572 497
Equity at 31.12.2017	684 922	11 664	1 595 842	(17 086)	572 497	2 847 839

PICTET GROUP GOVERNANCE AT 31 DECEMBER 2017

Structure and ownership of the Pictet Group

The Pictet Group is a privately owned leader in wealth and asset management. As an investment-led service company, the Pictet Group offers wealth management, asset management and related asset services. The Group does not engage in investment banking, nor does it extend commercial loans.

The Pictet Group comprises all the entities over which the partners of the Pictet & Cie Group SCA have joint control. These entities are listed in note 7 “Main legal entities of the Group”. The holding entities are listed in the accounting principles section.

The Group's equity comprises contributions from the equity owners, that is the partners and other holders of equity capital in the companies that, in combination, control the Pictet Group.

The significant equity owners are the partners: Nicolas Pictet, Renaud de Planta, Rémy Best, Marc Pictet, Bertrand Demole and Laurent Ramsey.

Pictet Group governing bodies

The two main governing bodies are the Board of Partners and the Supervisory Board of Pictet & Cie Group SCA.

The Board of Partners is made up of the Partners of Pictet & Cie Group SCA. It is responsible for the highest level of management of the Group. It defines the Group’s strategy, supervises its implementation, sets the Group’s risk appetite and exercises consolidated supervision of the Group’s activities.

The Supervisory Board acts as an independent body that oversees the management of the Pictet Group by the Board of Partners. The Supervisory Board acts as the audit committee and risk committee.

Risk management

The ‘risk management’ note to the Annual Report of the Pictet Group describes the Group’s risk policy and the risk profile, as well as the oversight, controlling and management of the risks incurred by the Pictet Group.

Supervisory Board

Members

Shelby du Pasquier, Chairman*

Claude Demole* (until 31 March 2017)

Hans Isler* (from 1 April 2017)

Charles Pictet*

Jacques de Saussure (from 1 April 2017)

*Independent members

Organisation

The Supervisory Board is made up of at least three people elected by the annual general meeting of Pictet & Cie Group SCA. The composition of the Supervisory Board meets the independence criteria imposed by FINMA.

The members of the Supervisory Board are elected for a term of one year and may be re-elected. The members of the Supervisory Board may not be partners or employees of the Pictet Group.

The Supervisory Board meetings are called at least four times per year by its chairman.

Responsibilities

As the body with oversight over the Board of Partners, the Supervisory Board verifies that the measures taken by the Board of Partners comply with law, regulations and the articles of the association. In this context the Supervisory Board oversees the risk controls and the following tasks, among others:

- monitoring the existence of a risk management framework and policy that reflect the strategy and risk profile of the Pictet Group,
- critically assessing the main risks and ensuring that the Board of Partners responds to them,
- checking that the level of equity is in line with the strategy and risk profile of the Pictet Group,
- monitoring the adequacy of the organisation of the Pictet Group's control functions.

The Supervisory Board also exercises a control function over the internal and external audit. In this capacity, it examines and approves the annual audit plan and reviews the work carried out by internal and external audit and the measures that have to be taken. It evaluates the integrity of the financial statements of the Group.

At least once a year, the Supervisory Board informs the Board of Partners of its findings relating to supervision and the controls performed.

Backgrounds of the members of the Supervisory Board

Shelby du Pasquier

Education

- Columbia University School of Law, New York City (LL.M.)
- University of Geneva, School of Law (Bachelor's)
- University of Geneva School of Economics and Social Sciences (Bachelor's)

Professional experience

- Since 1988: Lenz & Staehelin, Geneva (partner since 1994)

Appointments

- Member of the International Bar Association, Swiss Bar Association, Geneva Bar Association
- Member of the Bank Council of the Swiss National Bank
- Member of the Board of Directors of SGS SA
- Member of the Board of Directors of Stonehage Fleming Family and Partners Limited, Stonehage Fleming Global Limited, Jersey and Stonehage Fleming S.A., Neuchâtel

Hans Isler

Education

- Swiss Certified Public Accountant
- Master's in Economics, University of St. Gallen

Professional experience

- Since 2014: member of the Board of Directors of Banque Pictet & Cie SA
- Since 2012: independent Board Member
- 2002 – 2011: Ernst & Young SA, Switzerland, Partner and member of the Board of Directors
- 1980 – 2002: Arthur Andersen SA, Switzerland, partner (from 1994 to 2002) and member of the Board of Directors
- 1978 – 1980: Delegate to the International Committee of the Red Cross

Appointments

- Vice-chairmanof the Board of Directors of Leonteq AG, Zurich
- Chairman of the Board of Directors of Banque Thaler SA, Geneva
- Member of the Board of Directors of Banque du Léman SA, Geneva
- Chairman of the Board of Directors of Valcourt SA, Geneva
- Board Memberof MKS (Switzerland) SA and its subsidiary, PAMP SA, Castel-San-Pietro, Chairman of the Audit Committee of MMTC-Pamp India Pvt. Ltd, Delhi
- Deputy Magistrate of the *Cour des comptes* (Auditor General) of the Canton of Geneva

- Member of the finance committee of Doctors Without Borders Switzerland, Geneva

Charles Pictet

Education

- Master's in Economics, University of St. Gallen

Professional experience

- 2005 – 2012: member of the Federal Banking Commission (CFB), then member of the Board of Directors of the Financial Market Supervisory Authority (FINMA)
- 1969 - 2005: Pictet Group (partner from 1979 to 2005)

Appointments

- Member of the Council of Europa Nostra, The Hague

Jacques de Saussure

Education

- MBA, MIT Sloan School of Management, Boston;
- Degree in applied Mathematics and Computing, Ecole Polytechnique de Lausanne;

Professional experience

- 1980 – 2016: Pictet Group (partner from 1986 to 2016)
- 1978 – 1979: Intersec Research

Appointments

- Vice-Chairman of the Board of Directors of Banque Pictet & Cie SA
- Member of the Board of Directors of the Swiss Bankers Association, Basel
- Chairman of the Board of Directors of Eurosite Power Inc., Waltham (USA)
- Member of the Board of the Mary's Mercy Foundation, Rapperswil
- Treasurer of the FIFDH Foundation (International Film Festival and Forum on Human Rights), Geneva
- Member of the Council of Europa Nostra, The Hague

Board of Partners

Composition

Nicolas Pictet

Renaud de Planta

Rémy Best

Marc Pictet

Bertrand Demole

Laurent Ramsey

Organisation

The Board of Partners meets as often as business requires, at least twice per month, and is chaired by the senior partner. It works by consensus.

Responsibilities

The Board of Partners is the most senior level of management of the Pictet Group and its business activities. It defines and implements the Group's strategy and objectives, sets the acceptable level of risks and takes all decisions laying down the general framework of the Group's business activities. The Board of Partners also carries out the consolidated supervision of the activities of the Pictet Group.

The responsibilities of the Board of Partners include:

- determining and following up on the strategy, objectives and budget of the Pictet Group,
- monitoring the internal control system and the compliance policy,
- setting the human resources policy,
- appointing and dismissing the Head of Internal Audit and the auditor of the Pictet Group on advice of the Supervisory Board,
- determining the principles to be used for accounting and financial controlling,
- reviewing and approving the interim and annual consolidated financial statements of the Pictet Group,
- allocating equity and determining the cash management principles for the Pictet Group as a whole.

The Board of Partners is responsible for implementing the internal audit, risk management and compliance functions related to the consolidated supervision of the Pictet Group. These functions are carried out by resources provided by certain entities of the Group.

Apart from their collegiate responsibility, the members of the Board of Partners assume individual and reporting responsibilities for corporate functions or business lines of the Pictet Group. These responsibilities are decided by the Board of Partners.

Backgrounds of the members of the Board of Partners

Nicolas Pictet

Education

- Law degree and bar exam, Geneva

Professional experience

- Since 2016: senior partner of the Pictet Group
- Since 1984: Pictet Group (partner since 1991)
- 1982 – 1984: Oppenheimer & Richard Butler, London
- 1978 – 1982: Schellenberg Wittmer Avocats, Geneva

*Appointments**

- Treasurer Pro Natura, Geneva
- Member of various Boards of charitable foundations

Renaud de Planta

Education

- PhD in Financial Economics, University of St. Gallen
- MBA in Finance, University of Chicago
- Master's in Economics, University of St. Gallen

Professional experience

- Since 1998: partner of the Pictet Group
- 1988 - 1998: Global Head of Equity Derivatives, UBS Warburg, London
- Head of Hong Kong and Northern Asia region
- Head of Interest Rate Derivatives

*Appointments**

- Member of the Global Advisory Board of the University of Chicago – Booth School of Business, USA
- Member of various Boards of charitable foundations

Rémy Best

Education

- Law degree and bar exam, Geneva
- MBA, INSEAD, Paris

Professional experience

- Since 1997: Pictet Group (partner since 2003)
- 1991 – 1997: McKinsey & Company, New-York, Geneva and Zurich
- 1988 – 1990: Lalive, Budin & Partners, Geneva

*Appointments**

- Member of the Board of Directors of INSEAD
- Chairman, INSEAD Campaign Board
- Président, Domus Antiqua Helvetica, Geneva

Marc Pictet

Education
- MBA, Boston University
- International Management Program, Kobe
- Bachelor of Science, Bryant College, Smithfield, Rhode Island

Professional experience
- Since 2002: Pictet Group (partner since 2011)
- 2001 – 2002: Sal. Oppenheim, Cologne
- 1997 – 2000: Prudential Investments, Newark

*Appointments**
- Vice-president, Board of the Geneva Financial Center
- Member of the Advisory Committee of Fondation Luxembourg

Bertrand Demole

Education
- MBA, INSEAD, Paris
- Bachelor's in Finance and Economics, Babson College, Boston

Professional experience
- Since 2001: Pictet Group (partner since 2011)
- 1999 – 2001: Soditic Asset Management, London
- 1996 – 1998: Moore Capital Management, New-York

*Appointments**
- Member of the Committee of the Association of Swiss Private Banks
- Member of the Young Presidents' Organization

Laurent Ramsey

Education
- Certified Portfolio Manager and Financial Analyst (CFPI), Lausanne
- Master's in International Management, HEC Lausanne
- Bachelor's in Business Administration, HEC Lausanne

Professional experience
- Since 1995: Pictet Group (partner since 2016)

*Appointments**
- No other appointments

* *Appointments outside the Pictet Group*

Remuneration

Board of Partners

The members of the Board of Partners receive a fixed remuneration and receive the fee conditions and other benefits offered to staff.

No part of the remuneration of the members of the Board of Partners changed in 2017.

Supervisory Board

All members of the Supervisory Board receive a fixed remuneration.

The members of the Supervisory Board who used to be partners or employees of the Pictet Group receive the preferential fee conditions for transactions carried out within the Pictet Group. They do not receive other special conditions offered to staff.

The members of the Supervisory Board are not under any contract with the Pictet Group entitling them to compensation at the end of their appointment.

No part of the remuneration of the members of the Supervisory Board changed in 2017.

Auditors

External audit

The external audit is an integral part of the governance. The auditor of the consolidated financial statements of the Pictet Group is PricewaterhouseCoopers SA (PwC), Suisse. The existing appointment was renewed for 2017. Christophe Kratzer has been the auditor in charge since 2016.

PwC presents the planning of the audit work and their reports to the Supervisory Board.

Note 29 ‘Other operating expenses’ of the Annual Report of the Pictet Group details the fees paid to the auditor in 2017, including a breakdown between auditing fees and consulting fees. The latter related to assignments that do not impair the independence of the auditors.

Internal audit

The internal audit unit of the Group provides Pictet & Cie Group SCA's Supervisory Board and Board of Partners with independent assurances on the operations and the control and governance process of the Pictet Group. In addition, it provides independent and objective advice and points of view, in order to create added value and improve the management of the Group.

To ensure the independence of this department, it only reports to the Chairman of the Supervisory Board and the Senior Partner of the Board of Partners.

NOTES

ACCOUNTING PRINCIPLES

Consolidated accounts at 31 december 2017

Name and legal status of the Group

The Pictet Group's accounts comprise the financial statements of all companies in which the partners of the Pictet Group owned, either directly or indirectly, over 50% of the capital or voting rights at 31 December 2017.

The Group's scope of consolidation therefore covers a number of corporate entities that are either linked in business combinations between themselves or consolidated into one or more of the business combinations. The combination link stems from the fact these entities come under the common control of the partners of Pictet & Cie Group SCA.

Those entities that are directly controlled by the partners are: Pictet & Partners, Cologny; Pictet Holding LLP, Singapore; Pictet Capital SA, Cologny; Pictet Investment SA, Cologny; Sopafin (Luxembourg) SA, Luxembourg; Pictet Canada LP, Montreal; and Sopafin SA, Cologny.

Accounting principles and valuation method

The Group's consolidated financial statements have been drawn up in accordance with the provisions of the Swiss Federal Law on Banks and Savings Banks, its relevant implementing ordinance and the guidelines on the accounting principles to be applied in the banking sector as stipulated by the Swiss Financial Market Supervisory Authority FINMA (Circular 2015/1).

The financial statements have been compiled to present a true and faithful picture of the Group's assets, financial position and results.

This report should be read in conjunction with the 'Pictet Group capital adequacy and liquidity disclosure at 31 December 2017' (in accordance with the Circular 2008/22).

The main accounting methods applied are described below.

General valuation principles

Assets and liabilities, together with off-balance-sheet business recognised under the same accounting heading, are valued on an individual basis.

Recording of transactions

Transactions are recorded and valued in accordance with generally accepted principles. As a rule, they will be recognised in the balance sheet as of the settlement date or the date on which the trading and cash-management transactions were closed.

Consolidation

Entities either directly or indirectly controlled by the Group or over which the Group exercises a dominant influence are consolidated according to the full consolidation method. This means that the assets, liabilities, off-balance-sheet transactions, income and costs of fully consolidated companies are included in the Group's financial statements. All material business relations between consolidated companies are eliminated from assets, liabilities, costs and income. Net assets of Group companies are consolidated according to the purchase method. In the case of combined entities, the combination is an amalgamation of the accounts, performed in keeping with the same rules as described above.

If a significant influence is exercised over an entity, the equity method is used for consolidation purposes.

If the consolidated companies' accounts are closed on a date other than 31 December, interim financial statements will be drawn up.

Entities are consolidated as from the date effective control over them passed to the Group; they are removed from the scope of consolidation as from the date such control ceases.

Foreign-currency translation

Costs and income denominated in foreign currencies for each Group company are converted in the individual company accounts at the exchange rate prevailing on the transaction date. Assets and liabilities in foreign currencies are converted at the exchange rate applicable on the period-closing date. Currency gains and losses resulting from translation are included in the respective income statements of the individual companies.

Upon consolidation, the assets and liabilities of Group companies are converted into Swiss francs at the exchange rate on the period-closing date. Group companies' equity is converted at the historical exchange rate. Income and costs are converted at the exchange rate averaged over the reporting period.

Exchange differences resulting from conversion into Swiss francs of individual financial statements are recognised in equity ('Currency translation reserve').

The main exchange rates used to convert foreign currencies into Swiss francs are as follows:

	31.12.2017	31.12.2016	AVERAGE EXCHANGE RATE
EUR	1.1702	1.0720	1.1126
USD	0.9745	1.0164	0.9825
JPY	0.0087	0.0087	0.0088
GBP	1.3183	1.2559	1.2735

Liquid assets

Cash and sight deposits with central banks are booked in the balance sheet at nominal value.

Amounts due from banks and from customers

Amounts due from banks and from clients are booked in the balance sheet at nominal value, with due account being taken of any requisite value adjustments.

Value adjustments for default risk

Impaired loans/receivables, i.e. those receivables for which the debtor appears unlikely to be in a position to honour future obligations, are valued on an item-by-item basis. Off-balance-sheet transactions, such as firm commitments, guarantees and derivatives, are also included in this valuation. Any value impairment charge is covered by individual value adjustments to reflect the disparity between the book value of the receivable and the amount expected to be received as reimbursement.

A loan/receivable is deemed to be impaired when telltale signs make future contractual payments due in the form of capital and/or interest unlikely or, at the latest, when any such payments are in arrears for over 90 days.

Disclosures concerning the treatment of past due interest

Interest due and in arrears by over 90 days is regarded as being past due. The Group decides not to recognise in the income statement any past due interest or interest from impaired loans/receivables; instead, these items are booked under 'Value adjustments for default risks'.

Methods applied for identifying default risks and assessing whether value adjustments need to be made

When a liability commitment of a client or a group exceeds the limit accorded, when a current account is overdrawn without an authorised overdraft limit or when the value of collateral pledged falls below the drawdown limit applicable, the Credit Risk Control team immediately notifies the Client Relationship Manager who must take remedial steps subject to oversight by the Group's Credit Committee.

If it becomes unlikely the debtor will be able to honour their obligations, an individual value adjustment will be made on a case-by-case basis as decided by the relevant bodies and on the grounds of a proper valuation of any collateral security.

Valuation of collateral security for credit, in particular significant criteria applied to assess current economic values and the values of pledged assets

Granting credit to clients comes second to the management or custody of clients' assets, which constitute the Pictet Group's core business. The credit facilities granted are primarily Lombard loans, i.e. credit that is secured by the collateral pledged by the borrower.

Collateral accepted as security for Lombard loans are, as a priority, accounts in credit with Group companies, fiduciary deposits with accredited correspondent banks, precious metals and selected negotiable securities.

Current economic values of such assets are based on their ongoing market value. Loan-to-value ratios are conservative, varying depending on the amounts, quality, volatility and liquidity of the assets to be accepted as collateral security.

Securities financing transactions

The Group undertakes repurchase and reverse repurchase (repo/reverse repo) transactions for the purposes of its cash management, as well as securities lending/borrowing transactions on its clients' behalf.

Cash amounts exchanged and accrued interest are recognised in the balance sheet at nominal v alue. An item is only recognised in the balance sheet for securities where the transferring party also transfers economic control.

In cases where securities are lent or borrowed, those transactions in which the Group acts as principal are recognised in the balance sheet. Such transactions undertaken for clients, with the Group acting as agent, are treated in compliance with rules for fiduciary transactions.

Trading portfolio assets and trading portfolio liabilities

Equities, bonds, precious metals, investment funds and derivatives not acquired as long-term investments or for the purpose of covering client purchases of securities certificates issued by the Group are included under 'Trading portfolio assets/liabilities'. Trading positions are valued at fair value on the balance-sheet date. Securities not traded on regular markets are valued at their acquisition cost subject to any requisite write-down of value (principle of the lower of cost or market value).

Interest and dividend income from trading portfolios are booked under 'Income from trading activities and the fair value option'. The refinancing costs of the trading portfolios are offset directly under 'Income from trading activities and the fair value option'. Unrealised income stemming from the valuation, as well as realised income, are booked under 'Income from trading activities and the fair value option'.

Derivative financial instruments and their replacement values

– *Trading portfolios*

Derivative financial instruments ('derivatives') recorded on the balance-sheet date are marked to market ('fair value'). Positive and negative replacement values are recognised in the balance sheet under 'positive replacement values of derivative financial instruments' or 'negative replacement values of derivative financial instruments'.

For derivative contracts traded on clients' behalf on stock exchanges, only that portion of replacement values exceeding the margin calls is recognised in the balance sheet

– *Hedging transactions*

The Group may use derivatives to hedge interest-rate and currency risks for the purposes of its asset/liability management. Hedging transactions are valued according to the same principles as those for the underlying transactions being hedged. Income/losses on hedging transactions are booked under the same item under which the result from the underlying asset being hedged is booked.

Other financial instruments at fair value and liabilities from financial instruments at fair value

The Group enables its clients to purchase certificates corresponding, in the main, to shares in equity baskets.

The amount of investments by clients in such certificates is recognised as a liability in the balance sheet under 'Liabilities from other financial instruments at fair value'. Amounts corresponding to the underlying financial assets are recorded on the assets side of the balance sheet under 'Other financial instruments at fair value'.

The difference between the amounts invested by clients, shown under liabilities, and positions held to cover the certificates, shown on the assets side, is essentially due to a cash component recorded under 'Cash and balances with central banks' on the assets side of the balance sheet.

Financial investments

Debt securities intended to be held to maturity are valued on the basis of amortised cost. Gains/losses resulting from fixed-income transactions sold prior to maturity or reimbursed early are accrued over the remaining term to the scheduled maturity date of the sold or reimbursed security. Negative value adjustments are, in principle, booked under 'Other ordinary expenses' (positive revaluations being recorded under 'Other ordinary income'). In cases where value adjustments are broken down into components related to default risk and market conditions, that portion related to default risk is recognised under 'Changes in value adjustments for default risks and losses from interest operations'.

Precious metals are valued at market value on the balance sheet date. They serve, primarily, as hedges for clients' 'Metal' accounts recorded under 'Amounts due in respect of client deposits' on the liabilities side of the balance sheet. Value adjustments are booked under 'Other ordinary expenses' or 'Other ordinary income', as appropriate.

Equities intended to be held as long-term investments are valued at the lower of their acquisition cost or market value on the balance-sheet date.

Non-consolidated participations

Non-consolidated participations are valued at their acquisition cost, less any required write -down of their value.

Tangible fixed assets

Tangible fixed assets include buildings, IT and telecommunications equipment as well as furniture, fixtures and fittings. Tangible fixed assets are valued at their acquisition cost, less accumulated depreciation computed according to the straight-line method over the estimated useful lifetimes of the assets.

Depreciation charges are booked under 'Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets' in the income statement.

Scheduled useful lifetimes

– Buildings for own use:	50 years
– Other buildings:	50 years
– Software:	3 years
– IT equipment:	3 years
– Other equipment and furniture:	3-5 years

Provisions

A provision is set aside for any probable obligation, based on a past event, whose amount and/or due date is uncertain, but can be reliably estimated.

Liabilities relating to pension schemes

The Pictet Group has set up several occupational pension schemes for its staff and employees in Switzerland and abroad.

Contributions paid into schemes are presented as 'Personnel expenses' in the income statement for the financial year to which they apply.

Every year, the Group examines whether, from its standpoint, there are economic benefits (overfunding) or obligations (underfunding) with regard to the pension schemes. Any difference with the corresponding value for the previous reporting period is booked under 'Personnel expenses' in the income statement.

The annual examination is undertaken on the basis of contracts, annual financial statements (for which the period closing date is not longer than 12 months earlier) drawn up in accordance with Swiss GAAP FER 26 for Swiss pension schemes, and any other calculations.

An economic benefit may be booked, if it is permissible and intended to use the surplus to lower future employer contributions, to reimburse it to the employer or to utilise it outside of the benefits as provided for in the scheme's rules. This benefit (surplus) will appear under 'Other assets' in the balance sheet and will be booked in the income statement under 'Personnel expenses'. The obligation (shortfall) will be registered in the same way in the income statement. It will, however, be booked under 'Provisions' in the balance sheet.

Taxes

Current taxes on income and capital are booked as an expense for the reporting period during which the income was generated.

Deferred taxes, stemming from temporary timing differences between the taxable and accounting values of assets and liabilities, are booked as deferred taxes under 'Provisions' on the liabilities side of the balance sheet.

Change in accounting principles

Until 31.12.2016, refinancing costs were charged, at market rates, against 'Income from trading activities and the fair value option'. The refinancing costs of the trading portfolios are offset directly with the corresponding proceeds under 'Income from trading activities and the fair value option'.

Restatement of previous year's figures

Some figures relating to the previous year have been restated, so as to be consistent with the presentation of the current year's figures. The items 'Interest and discount income' and 'Interest and dividend income from financial investments' contain such restated figures.

RISK MANAGEMENT

Risk policy

General provisions

Risk management forms a cornerstone of the Pictet Group's corporate strategy and governance. The Pictet Group's Management defines the Group's general risk policy, which is applied to all companies in the Pictet Group and is intended to cover all types of major risk to which the Group is exposed.

Specific factors related to the various categories of risk are covered in specific risk policies or in-house directives or guidelines. The risk policy is implemented at several different levels:

- The Pictet Group's Management ratifies and oversees implementation of general risk policy;
- The Executive Committees of Pictet Group companies supervise the proper implementation of the policy and put operational measures into practice to apply it;
- Specific committees are responsible for managing risks in their respective fields;
- The individual business units are responsible for managing risks specific to them.

In addition, the Pictet Group strives to foster a corporate culture in which risk management is given a high priority and made an integral part of all management activities. As such, risk management (for all risk caregories) must be perceived by every member of staff as being one of their responsibilities as well.

Monitoring of overall risk profile

The Pictet Group's Risk Department compiles a consolidated report on overall risk exposure for the Pictet Group's management bodies on a quarterly basis. This report presents an impartial overview of the overall situation and level of risk for the Pictet Group.

Attitude to and appetite for risk

Considering the nature of the Pictet Group's business, risks cannot be entirely eliminated. Risks associated with the Group's business activities are accepted, in compliance with legal or internal regulations, provided they do not exceed the Group's risk appetite (including in so-called 'stress' situations) and can be monitored and controlled thanks to documented processes in keeping with the Group's general risk policy.

Any new business activity, product or major change within an area of business is subject beforehand to a risk analysis. The Pictet Group's Management is required to give its formal approval.

The appetite for market, credit, interest-rate and liquidity risks at the Group level is translated into quantified limits, and the appetite for other categories of risk, such as operational and business risks, is translated into qualitative as well as quantified limits. These limits on risk are sub-divided into sub-limits where deemed necessary. These limits are regularly reviewed by the Pictet Group's Management.

Risks that do not come under the heading of risks related to the Pictet Group's business activities or which exceed the limits laid down are avoided, lessened or transferred. Similarly, business activities on which the risks are not adequately rewarded are avoided.

Credit risk

Credit risk arises out of the possibility of a counterparty defaulting on their financial obligations to the Pictet Group. It covers settlement risks and risk factors associated with a particular country. All forms of credit obligations involving non-banking clients, banks or organised markets constitute a credit risk. Credit risk management is monitored by the Chief Credit Officer.

– *Clients*

Granting credit to clients comes second to the management or custody of assets on behalf of third parties, which constitute the Pictet Group's core business. Credit facilities granted are primarily Lombard loans, i.e. credit that is secured by the collateral pledged by the borrower.

Risks are limited by stringent criteria in terms of the quality, liquidity, valuation and diversification of assets pledged as collateral, as well as by the application of conservative loan-to-value ratios, differentiated by asset class.

All liabilities stemming from credit granted are reviewed in a quarterly report submitted to the Pictet Group's management bodies. Such reports may be compiled more frequently in the event of high market volatility or in the case of credit obligations calling for special monitoring.

– *Banking counterparties*

The Pictet Group selects top-tier correspondent banks and banking counterparties. In addition to diversification criteria, risks are reduced by resorting to legal or contractual compensation, guarantees, credit derivatives or hedging taking the form of different financial assets. Settlement risk is limited through recourse to centralised settlement systems of the Continuous Linked Settlement (CLS) type.

Banking counterparties selected by the Treasury Committee are approved on a quarterly basis by the Pictet Group's Management. All limits are set according to a formal process under the Chief Credit Officer's responsibility. Limits on trading and settlement, bank deposits, fiduciary deposits and clearing limits are set on an individual basis for each counterparty.

Management and monitoring of banking counterparty risk are the responsibility of the Treasury Committee, which draws on the support of the following bodies and persons:

- the Banking Risk Committee (BRC), comprising Pictet Group financial analysts specialised in banks, gives an impartial assessment to the Treasury Committee;
- the Counterparty Risk Committee (CRC) examines requests for changes to existing limits or for new limits for banking counterparties;
- the Chief Credit Officer permanently monitors and controls the quality of banking counterparties;
- the Credit Risk Control team checks compliance with limits for each banking counterparty.

A quarterly report on the status of contracted obligations is compiled and presented to the Pictet Group's Management.

– *Financial investments*

The Pictet Group invests in top-quality financial assets, mainly including bonds or similar debt securities meeting very stringent criteria. These investments are intended to diversify the Pictet Group's liquidity in medium-term investments and to deliver regular returns.

The choice of investment vehicle is devolved to the Treasury Department in conformity with the investment grid authorised by the Treasury Committee. This grid, reviewed and revised depending on developments, stipulates those instruments, types of issuers and countries that are authorised, the minimum credit ratings to be met, as well as limits and sub-limits by segment, issuer and maturity date.

Market risk

Market risk lies in the Pictet Group's exposure to any adverse movements in market conditions. The main risk factors relate to interest rates, prices of equity-type securities, exchange rates and prices of precious metals.

– *Trading operations for its own account (trading portfolio)*

The Board of Partners lays down the overall appetite for market risks. This is then broken down into sub-limits under the supervision of the Group Market Risk Committee. The senior management of Pictet Trading & Sales (PTS) is responsible for organising 1st level market risk controls, both on the trading desks and also by a permanent control carried out by the unit set up to monitor the risks of PTS (internal limits). Second-level controls (independent and based on own funds) are carried out by Group Risks, which has an unlimited right to inspect the 1st level risk monitoring.

The Pictet Group Policy for Managing, Controlling and Monitoring Market Risk sets out the organisational framework and underlying principles with regard to managing market risks.

Trading activities for the Group's own account are aimed essentially at mitigating risk resulting from client orders. It is not the Pictet Group's prime vocation to take large directional positions for its own account with respect to its own funds. Such proprietary trading is undertaken subject to a strict framework of limits and is geared towards accumulating a more thorough understanding of markets in which the Pictet Group is active.

Proprietary trading is used primarily on currency, equity and bond markets.

Limits attached to such trading activities are formulated in three ways: as a delta or direct exposure (in-house limits), as stress tests (internal limits) and in terms of equity in accordance with FINMA rules relating to calculating capital adequacy requirements for market risks (formulated in Circular 2008/20).

– *Structural balance-sheet management (bank portfolio)*

The Pictet Group Liquidity Management Policy sets out the organisational framework and the fundamental principles of structural balance sheet management.

The purpose of managing the balance sheet, generally referred to as Asset & Liability Management (ALM), is to estimate and achieve a balance between liabilities (inflows) and assets (outflows) in light of the Pictet Group's appetite for risk, subject to the constraints of achieving a desired level of profitability and adherence to a clearly-delineated regulatory framework. The Treasury Committee analyses liquidity risk and interest-rate risk; it ensures that ratios imposed by FINMA are complied with. The Finance Department is responsible for organising the 1st level market risk controls stemming from treasury management activities and including the stress tests. The 2nd level controls (independent) are performed by the Group Risk Department.

The purpose of the Pictet Group's policy is to keep interest-rate risk at a modest level. This policy is reflected in corresponding risk limits.

The Treasury Department is responsible for implementing the defined strategy at the operational level. The use of interest-rate derivatives for the purposes of hedging or managing durations is allowed as being in line with efficient cash management.

Operational risk

Operational or business risk can be defined as the risk of losses or damage resulting from inadequacies or shortcomings in in-house processes, staff or systems, or stemming from external events. Operational risk also covers legal and compliance risks.

The Pictet Group Operational Risk Policy sets out the organisational framework and the fundamental principles of operational risk management. The policy requires that the responsibilities are clearly defined for each significant risk. These responsibilities are broken down into three categories: owning the risk, controlling the risk and monitoring the risk.

Management teams for each business line are responsible for identifying, assessing, managing, monitoring and controlling those operational risks specific to their area of business. They are assisted in this by risk managers working directly with the various business lines. These risk managers also act as liaisons between Management and the Pictet Group's Risk Department.

A process of identifying and assessing operational risks throughout the Pictet Group is performed on a regular basis. If deemed necessary, action plans are instigated to lessen risks that are assessed to exceed limits set according to the appetite for risk.

Key risk indicators (KRIs) are defined and regularly analysed. These KRIs measure the level of risk resulting from business activities, systems, processes, etc.

All operating incidents and potentially resultant financial losses are logged so as to have an overall quantifiable view of incidents that have occurred and to ensure that plans to mitigate risk levels or extra checks and controls can be put in place in the event of a major incident.

The Pictet Group has instituted robust corporate governance geared towards anticipating risk. This involves active exchanges of information with business lines and regular efforts to emphasise to staff their responsibilities and heighten their awareness about the direct and indirect impact that the Pictet Group's activities (for example, changes in the political or regulatory climate) might have on its reputation as well as on that of its clients and its staff. Effective management of communications, both in-house and to the outside world, is crucial in safeguarding the Pictet Group's good name and reputation. Group Corporate Communications is responsible for effective image management of the Group. It monitors articles published about the Group and will contact the media swiftly as soon as the Group's reputation might be at stake. Measures aimed at limiting risk to the Group's image and reputation include analysing and pinpointing any areas of vulnerability, internal analysis and escalation procedures, rules of conduct applicable to staff, as well as, for example, publishing press releases or compiling Q&A factsheets. Group Corporate Communications works closely together with the Risks, Compliance and Legal Departments. Reputational risk, coupled with the monitoring and appropriateness of measures, are included in the consolidated report on overall risk submitted to Pictet Group's Management.

The Pictet Group has formulated a crisis-management process to enable it to take effective and swift action to cope with a variety of crisis events. A crisis-management plan has been drawn up. Members of staff appointed as 'Crisis Coordinators' have been trained. Operating procedures and communications plans have been compiled.

Business Continuity Management is geared towards safeguarding the sustainability of the Pictet Group and protecting its clients' assets. Contingency solutions have been devised, deployed and kept operational for each Pictet Group company in keeping with the risks incurred, statutory and regulatory requirements, and need in terms of safeguarding the continuity of operations. To this end, emergency off-site workplaces and IT/technical infrastructures are available and regularly tested.

Change in risk policy

There were no changes in the risk policy in 2017.

HEDGE ACCOUNTING

Equity of consolidated companies

Fixed forward contracts are used to hedge exchange-rate risk related to the equity of consolidated companies. The results of hedging contracts are booked in the same way as results for the underlying hedged item, i.e. under 'Currency translation reserves'.

How effective hedging contracts are, is gauged whenever the hedging is renewed or rolled over by comparing the results achieved by the hedging instrument and the hedged item. Hedging transactions that no longer or only partially fulfil their hedging purpose are equated, for their ineffective portion, to trading transactions and are treated as such.

Treasury management

The Pictet Group invests its surplus liquidity from clients' deposits in a portfolio geared to a long-term strategy. This portfolio comprises holdings in bonds intended to be held to maturity although, in particular circumstances (such as a downgrading of an issuer's creditworthiness), the debt securities may be sold before term. Depending on market rates, excess treasury amounts may also be invested in short-term investments.

In order to protect against interest-rate risk that might have an adverse impact on the portfolio's value, the Group makes use of derivatives (in the form of interest-rate swaps). The risk measures used are Basis Point Values (BPV), which indicate how sensitive the portfolio's market value is to a parallel change of 100 basis points in the yield curves of different currencies. This risk is monitored daily.

EVENTS AFTER THE BALANCE SHEET DATE

No significant events that might affect the consolidated 2017 annual accounts have occurred since the year-end closing date.

NOTES TO THE BALANCE SHEET

1. BREAKDOWN OF SECURITIES FINANCING TRANSACTIONS (ASSETS AND LIABILITIES)

CHF thousand	31.12.2017	31.12.2016
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions*	619 108	997 000
Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions*	1 332 492	776 523
Book value of securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing as well as securities in own portfolio transferred in connection with repurchase agreements	1 345 887	775 746
Fair value of securities received and serving as collateral in connection with securities lending or securities borrowed in connection with securities borrowing as well as securities received in connection with reverse repurchase agreements with an unrestricted right to resell or repledge	619 042	997 321

*Before netting agreements

2. PRESENTATION OF COLLATERAL FOR LOANS/RECEIVABLES AND OFF-BALANCE-SHEET TRANSACTIONS, AS WELL AS IMPAIRED LOANS/RECEIVABLES

CHF thousand	TYPE OF COLLATERAL			
	SECURED BY MORTGAGE	OTHER COLLATERAL	UNSECURED	TOTAL
Loans (before netting with value adjustments)				
Amounts due from clients	64 223	8 122 372	173 855	8 360 450
Total loans (before netting with value adjustments)				
31.12.2017	**64 223**	**8 122 372**	**173 855**	**8 360 450**
31.12.2016	**61 464**	**7 460 378**	**176 409**	**7 698 251**
Total loans (after netting with value adjustments)				
31.12.2017	**64 223**	**8 122 372**	**173 491**	**8 360 086**
31.12.2016	**61 464**	**7 460 378**	**174 969**	**7 696 811**
Off-balance sheet				
Contingent liabilities	5 855	5 555 306	23 557	5 584 718
Irrevocable commitments	-	-	21 264	21 264
Total off-balance sheet				
31.12.2017	**5 855**	**5 555 306**	**44 821**	**5 605 982**
31.12.2016	**-**	**4 342 096**	**154 451**	**4 496 547**

Impaired loans/receivables

CHF thousand	GROSS DEBT AMOUNT	ESTIMATED LIQUIDATION VALUE OF COLLATERAL	NET DEBT AMOUNT	INDIVIDUAL VALUE ADJUSTMENTS
31.12.2017	364	-	364	364
31.12.2016	1 440	-	1 440	1 440

The total amount of impaired loans corresponds to 0.004% of the total amounts due from clients at 31 December 2017 (at 31 December 2016 their share was 0.02%).

3. BREAKDOWN OF TRADING PORTFOLIOS AND OTHER FINANCIAL INSTRUMENTS AT FAIR VALUE (ASSETS AND LIABILITIES)

ASSETS (CHF thousand)	31.12.2017	31.12.2016
Trading portfolio assets	79 453	79 083
Debt securities, money market securities/transactions	42 742	28 486
of which, listed	42 547	28 486
Equity securities	36 711	50 597
Other financial instruments at fair value	529 280	567 842
Equity securities	516 011	554 648
Precious metals	13 269	13 194
Total assets	**608 733**	**646 925**
of which, determined using a valuation model	10 563	10 804

LIABILITIES (CHF thousand)	31.12.2017	31.12.2016
Trading portfolio liabilities	943	9 064
Equity securities	943	9 064
Other financial instruments at fair value	566 202	580 910
Structured products (certificates)	566 202	580 910
Total liabilities	**567 145**	**589 974**
of which, determined using a valuation model	567	2 706

The Pictet Group enables its clients to purchase certificates corresponding, in the main, to shares in equity baskets. The section detailing the accounting principles of this report describes how these certificates are treated.

4. PRESENTATION OF DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS AND LIABILITIES)

CHF thousand	TRADING INSTRUMENTS			HEDGING INSTRUMENTS		
	POSITIVE REPLACEMENT VALUES	NEGATIVE REPLACEMENT VALUES	CONTRACT VOLUME	POSITIVE REPLACEMENT VALUES	NEGATIVE REPLACEMENT VALUES	CONTRACT VOLUME
Interest-rate instruments						
Swaps	4 111	3 952	252 313	36 941	65 069	15 921 438
Futures	32	17	1 103 988	-	-	-
Options (OTC)	-	-	-	-	-	-
Foreign exchange/precious metals						
Forward contracts	146 525	289 391	39 607 373	465	1 115	269 187
Combined interest rate/currency swaps	628 363	459 606	85 839 242	68 496	67 065	14 651 010
Futures	320	451	104 178	-	-	-
Options (OTC)	70 297	85 627	8 425 703	-	-	-
Equity securities/indices						
Swaps	210	210	38 635	-	-	-
Futures	1 039	1 329	293 163	-	-	-
Options (OTC)	98 825	67 199	9 900 072	-	-	-
Options (exchange-traded)	3 516	8 696	413 442	-	-	-
Total before netting agreements:						
31.12.2017	**953 238**	**916 482**	**146 454 765**	**105 902**	**133 249**	**30 841 635**
of which, determined using a valuation model	914 621	865 563	136 429 124	140 601	174 660	38 732 087
31.12.2016	**1 276 479**	**1 288 511**	**116 382 150**	**249 850**	**231 712**	**39 802 978**
of which, determined using a valuation model	1 273 328	1 284 535	115 413 329	249 850	231 712	39 802 978

Derivative financial instruments result mainly from transactions on behalf of clients in which Pictet Group entities contract with counterparties on the market.

Furthermore, hedging transactions are mentioned in the section on hedge accounting.

– *Total after netting agreements*

CHF thousand	POSITIVE REPLACEMENT VALUES (CUMULATIVE)	NEGATIVE REPLACEMENT VALUES (CUMULATIVE)
31.12.2017	1 059 140	1 049 731
31.12.2016	1 526 329	1 520 223

– *Breakdown by counterparty*

POSITIVE REPLACEMENT VALUES (AFTER NETTING AGREEMENTS) (CHF thousand)	CENTRAL CLEARING HOUSES	BANKS AND SECURITIES DEALERS	OTHER CUSTOMERS
31.12.2017	-	747 952	311 188
31.12.2016	2 997	957 780	565 552

5. BREAKDOWN OF FINANCIAL INVESTMENTS

CHF thousand	BOOK VALUE		FAIR VALUE	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Debt securities	7 359 199	9 961 285	7 422 269	10 083 881
of which, intended to be held to maturity	7 359 199	9 961 285	7 422 269	10 083 881
Equity securities	172 921	172 917	200 369	200 731
Precious metals	440 465	595 630	440 465	595 630
Total	**7 972 585**	**10 729 832**	**8 063 103**	**10 880 242**
of which, securities eligible for repo transactions in accordance with liquidity requirements	5 197 368	5 530 589	5 250 197	5 637 345

– Breakdown of counterparties by rating

CHF thousand	FAIR VALUE	
	31.12.2017	31.12.2016
AAA	5 909 970	7 467 829
AA+	820 541	1 173 225
AA	149 509	735 746
AA-	535 840	441 624
A+	6 409	265 457
Total	**7 422 269**	**10 083 881**

The Pictet Group uses the specific ratings of three agencies (Standard & Poor’s, Moody’s and Fitch), assigned to the instruments it holds. Ratings are based on Standard & Poor’s rating scale. When three ratings are available, the median value is taken. When two ratings are available, the more prudent one is taken. In the absence of a specific rating, Standard & Poor’s long-term rating of the issuer is used.

6. NON-CONSOLIDATED PARTICIPATIONS

CHF thousand	ACQUISITION COST	ACCUMULATED VALUE ADJUSTMENTS AND CHANGES IN BOOK VALUE (VALUATION USING THE EQUITY METHOD)	BOOK VALUE AT 31.12.2016	ADDITIONS	DISPOSALS	BOOK VALUE AT 31.12.2017	MARKET VALUE
Other participations							
with market value	6 024	(4 131)	1 893	-	-	1 893	5 884
without market value	8 270	(1 767)	6 503	110	(1 556)	5 057	45 549
Total participations	**14 294**	**(5 898)**	**8 396**	**110**	**(1 556)**	**6 950**	**51 433**

7. MAIN LEGAL ENTITIES OF THE GROUP

COMPANY NAME AND DOMICILE	BUSINESS ACTIVITY	CURRENCY	COMPANY CAPITAL (in thousand)	SHARE OF CAPITAL (in %)	SHARE OF VOTES (in %)	HELD DIRECTLY	HELD INDIRECTLY
Bank Pictet & Cie (Asia) Ltd, Singapore	Bank	CHF	77 000	100	100	-	100
Banque Pictet & Cie SA, Carouge	Bank	CHF	90 000	100	100	-	100
Bayside Pictet Ltd, Nassau	Real estate company	CHF	7	100	100	-	100
FundPartner Solutions (Europe) SA, Luxembourg	Fund management	CHF	6 250	100	100	-	100
FundPartner Solutions (Suisse) SA, Carouge	Fund management	CHF	10 000	100	100	-	100
Pictet & Cie (Europe) S.A., Luxembourg	Bank	CHF	70 000	100	100	-	100
Pictet & Cie Group SCA, Carouge	Financial company	CHF	148 500	100	100	-	100
PICTET & PARTNERS, Cologny	Financial company	CHF	300 000	100	100	100	-
Pictet Advisory Services (Overseas) Ltd, Nassau	Investment advisory	CHF	150	100	100	-	100
Pictet Alternative Advisors SA, Carouge	Wealth management	CHF	3 000	100	100	-	100
Pictet Asia Pte Ltd, Singapore	Financial company	SGD	1 216	100	100	-	100
Pictet Asset Management (Europe) SA, Luxembourg	Asset Management	CHF	8 750	100	100	-	100
Pictet Asset Management (Hong-Kong) Ltd, Hong-Kong	Asset Management	HKD	30 000	100	100	-	100
Pictet Asset Management (Japan) Ltd, Tokyo	Asset Management	JPY	200 000	100	100	-	100
Pictet Asset Management (Singapore) Pte Ltd, Singapore	Asset Management	SGD	2 500	100	100	-	100
Pictet Asset Management Ltd, London	Asset Management	GBP	45 000	100	100	-	100
Pictet Asset Management Holding SA, Carouge	Financial company	CHF	40 000	100	100	-	100
Pictet Asset Management Inc., Montreal	Asset Management	CAD	250	100	100	-	100

COMPANY NAME AND DOMICILE	BUSINESS ACTIVITY	CURRENCY	COMPANY CAPITAL (in thousand)	SHARE OF CAPITAL (in %)	SHARE OF VOTES (in %)	HELD DIRECTLY	HELD INDIRECTLY
Pictet Asset Management SA, Carouge	Asset Management	CHF	21 000	100	100	-	100
Pictet Bank & Trust Ltd, Nassau	Bank	CHF	102 000	100	100	-	100
Pictet Canada S.E.C., Montreal	Brokerage	CAD	99 000	100	100	100	-
Pictet Capital S.A., Cologny	Financial company	CHF	90 000	100	100	82.5	17.5
Pictet Europe SA, Luxembourg	Financial company	CHF	13 750	100	100	-	100
Pictet Global Markets (UK) Ltd, London	Wealth management	GBP	500	100	100	-	100
Pictet Holding LLP, Singapore	Financial company	CHF	61 000	100	100	100	-
Pictet Investment SA, Cologny	Financial company	CHF	30 000	100	100	100	-
Pictet Life Insurance Advisors (France) SAS, Paris	Financial company	EUR	500	100	100	-	100
Pictet Life Insurance Advisors SA, Luxembourg	Financial company	EUR	500	100	100	-	100
Pictet (London) Ltd, London	Financial company	GBP	7 000	100	100	-	100
Pictet North America Advisors SA, Carouge	Wealth management	CHF	500	100	100	-	100
Pictet Overseas Inc., Montreal	Brokerage	USD	10 000	100	100	-	100
Pictet Sice Ltd, Taiwan	Asset Management	TWD	70 000	100	100	-	100
Pictet Technologies SA, Luxembourg	IT services	EUR	500	100	100	-	100
Pictet Wealth Management (Israel) Ltd, Tel Aviv	Wealth management	ILS	1 000	100	100	-	100
Sopafin Luxembourg SA, Luxembourg	Financial company	CHF	11 200	100	100	87.5	12.5
Sopafin Suisse SA, Cologny	Financial company	CHF	28 600	100	100	50.3	49.7

The entities listed above are consolidated according to the full consolidation method. Investments in companies that are not significant for the financial reporting are excluded from the consolidation perimeter.

– Significant non-consolidated participations at 31.12.2017

COMPANY NAME AND DOMICILE	BUSINESS ACTIVITY	CURRENCY	COMPANY CAPITAL (in thousand)	BOOK VALUE (in thousand CHF)	SHARE OF CAPITAL (in %)	SHARE OF VOTES (in %)
Euroclear Plc, Londres	Financial company	EUR	3 228	1 893	1	1
Gabriel Fiduciaria S.r.l	Financial company	EUR	900	1 153	100	100
Pictet International Ltd	Financial company	CHF	655	1 585	100	100

The Pictet Group does not have any significant position in equity securities of companies recorded in the assets of the balance sheet under 'Financial investments' (2016: none).

There are no commitments to purchase or dispose of shares (2016: none).

Non-consolidated participations are deemed significant if their value recorded on the balance sheet exceeds CHF 1 million or equivalent. All non-consolidated participations are subject to an equity requirement (risk weighted assets).

8. TANGIBLE FIXED ASSETS

CHF thousand	ACQUISITION COST	ACCUMULATED DEPRECIATION	BOOK VALUE AT 31.12.2016	ADDITIONS	TRANSLATION DIFFERENCES	DEPRECIATION	BOOK VALUE AT 31.12.2017
Buildings for own use	503 160	(158 198)	344 962	-	-	(7 575)	337 387
Other real estate	52 715	(22 737)	29 978	-	-	(726)	29 252
Separately acquired software	92 339	(80 270)	12 069	5 449	14	(7 352)	10 180
Other tangible fixed assets	261 121	(170 428)	90 693	23 781	615	(32 857)	82 232
Total tangible fixed assets	**909 335**	**(431 633)**	**477 702**	**29 230**	**629**	**(48 510)**	**459 051**

9. BREAKDWN OF OTHER ASSETS AND OTHER LIABILITIES

CHF thousand	OTHER ASSETS		OTHER LIABILITIES	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Compensation account	8 365	34 470	-	-
Deferred income taxes recognised as assets	11 447	10 859	-	-
Indirect taxes	96 119	79 547	30 752	36 720
Clearing accounts	49 306	40 445	160 552	197 189
Other	21 901	28 639	28 024	15 325
Total	**187 138**	**193 960**	**219 328**	**249 234**

10. DISCLOSURE OF ASSETS PLEDGED OR ASSIGNED TO SECURE OWN COMMITMENTS AND OF ASSETS UNDER RESERVATION OF OWNERSHIP

CHF thousand	BOOK VALUES		EFFECTIVE COMMITMENTS	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Due from banks	219 854	469 436	219 854	469 436
Financial investments	1 724 989	1 737 588	1 724 989	1 737 588

Assets pledged with banking counterparties correspond to deposits for margin calls associated with transactions in derivatives.

11. DISCLOSURES ON PENSION SCHEMES

The Pictet Group has set up, for the various companies in the Group, pension schemes designed to make provision for their employees and former employees against the economic consequences of retirement, incapacity and death. These pension schemes may differ depending on national legislation on occupational pensions applicable to the various Group companies and customary market practices.

In the case of employees in Switzerland, the Pictet Group's pension fund is an independent occupational pension scheme registered with the Supervisory Authority for the Canton of Geneva. This pension plan is a defined contributions scheme. The last set of audited annual accounts shows the funding ratio for the scheme stood at 123.2% as at end-December 2017. As a result, the value fluctuation reserve is fully funded up to its maximum target level of 20.1% of pension liabilities, in line with the Foundation Board's objectives.

The audited annual accounts for the Pictet Group's Fondation de Prévoyance Complémentaire pension plan show its funding ratio stood at 100% as at end-2017. Reassurance cover for death and invalidity risks has been taken out by the pension schemes with an insurance group.

Staff employed abroad are insured via occupational pension funds in the form of collective foundations or collective insurance contracts with life assurance companies or via State-run pension plans in the country of domicile. No economic benefits or liabilities arise out of this array of pension plans other than those that would be recognised in the balance sheet.

– *Liabilities relating to pension schemes at 31.12.*

LIABILITIES RELATING TO OWN PENSION SCHEMES (CHF thousand)	31.12.2017	31.12.2016
Amounts due in respect of client deposits	58 672	70 432

12. DISCLOSURE ON THE ECONOMIC SITUATION OF OWN PENSION SCHEMES

– *Employer contribution reserves (ECR)*

There are no employer contribution reserves with the pension schemes relating to the current year or the previous year.

– *Economic benefit/obligation and the pension expenses at 31 December*

CHF thousand	OVERFUNDING/ UNDERFUNDING AT 31.12.2017	CONTRIBUTIONS PAID FOR 2017	PENSION EXPENSES IN PERSONNEL EXPENSES	
			2017	2016
Employer sponsored funds/employer sponsored pension schemes	-	2 500	2 500	2 000
Pension plans without overfunding/underfunding	-	29 523	32 290	22 398
Pension plans with overfunding	23.2%	82 154	82 154	79 644

The governing bodies consider that any overfunding, as defined by the FINMA circular 2015/1 (margin no. 502), would be deployed for the benefit of the members of the pension scheme, so there would be no economic benefit accruing to the Pictet Group.

As at 31 December 2017, there was no economic benefit or obligation to be booked in the Pictet Group's balance sheet or income statement.

13. PRESENTATION OF ISSUED STRUCTURED PRODUCTS (BOOK VALUE)

UNDERLYING RISK OF THE EMBEDDED DERIVATIVE (CHF thousand)	VALUED AS A WHOLE		VALUED SEPARATELY		TOTAL
	BOOKED IN TRADING PORTFOLIO	BOOKED IN OTHER FINANCIAL INSTRUMENTS AT FAIR VALUE	VALUE OF THE HOST INSTRUMENTS	VALUE OF THE DERIVATIVE	
Equity securities					
With own debenture component (oDC)		552 933	-	-	552 933
Without oDC		-	-	-	-
Commodities/precious metals					
With own debenture component (oDC)		13 269	-	-	13 269
Without oDC		-	-	-	-
Total 31.12.2017		**566 202**	**-**	**-**	**566 202**

The Pictet Group enables its clients to purchase certificates corresponding, in the main, to shares in equity baskets. The section detailing the accounting principles of this report describes how these certificates are treated.

14. PRESENTATION OF VALUE ADJUSTMENTS, PROVISIONS AND CHANGES THEREIN DURING THE CURRENT YEAR

CHF thousand	BALANCE AT 31.12.2016	USE IN CONFORMITY WITH DESIGNATED PURPOSE	CURRENCY DIFFERENCES	NEW CREATIONS CHARGED TO INCOME	RELEASES TO INCOME	BALANCE AT 31.12.2017
Provisions for deferred taxes	120 431	-	-	17 703	(3 750)	134 384
Provisions for other business risks	56 181	-	108	29 445	(517)	85 217
Other provisions	6 532	(3 177)	113	168	(342)	3 294
Total provisions	**183 144**	**(3 177)**	**221**	**47 316**	**(4 609)**	**222 895**
Value adjustments for default and country risks	**1 440**	**-**	**-**	**-**	**(1 076)**	**364**
of which, value adjustments for default risks in respect of impaired loans/receivables	1 440	-	-	-	(1 076)	364

'Provisions for other business risks' are intended to cover a variety of risks relating to litigation, including any associated legal expenses. Provisions for deferred taxes result mainly from provisions set aside in the individual accounts of Banque Pictet & Cie SA that are not recognised in the consolidated accounts of the Pictet Group.

In October 2012, the Swiss Financial Market Supervisory Authority (FINMA) notified Banque Pictet & Cie SA (formerly known as Pictet & Cie) that the US Department of Justice had lodged a general request for information pertaining to its wealth-management business with US clients. Banque Pictet & Cie SA is in ongoing discussions with the US Department of Justice and is cooperating fully with it in compliance with applicable legislation. The programme set up by the US authorities for Swiss banks to settle their litigation over tax matters is not open to banks already under investigation. Banque Pictet & Cie SA received notification from the US Department of Justice confirming that the Bank fell into this category of banks (Category One). At this juncture, it is not feasible to judge what the extent of any financial implications for Banque Pictet & Cie SA might be, which explains why no provision had been set aside as at 31 December 2017.

15. BREAKDOWN OF FINANCIAL INVESTMENTS

The Group's equity comprises contributions from the equity owners, namely the partners and other holders of equity capital in the companies who, in combination, control the Pictet Group.

Other owners of capital than the partners, namely the Group directors, do not have voting rights.

The Pictet Group does not issue participatory ownership rights or options on such rights, and there is no share ownership scheme.

16. DISCLOSURE OF AMOUNTS DUE FROM/TO RELATED PARTIES

CHF thousand	AMOUNTS DUE FROM		AMOUNTS DUE TO	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Holders of qualified participations	18 038	60 497	1 030 321	1 167 029
Linked companies	-	26	2 570	3 940

Transactions with related parties are concluded at going market rates.

17. DISCLOSURE OF HOLDERS OF SIGNIFICANT PARTICIPATIONS

The partners of Pictet & Partners – Messrs Nicolas Pictet, Renaud de Planta, Rémy Best, Marc Pictet, Bertrand Demole and Laurent Ramsey – are significant equity owners.

Decisions are taken by the partners on a consensus basis, at the level of the holding companies.

18. MATURITY STRUCTURE OF FINANCIAL INSTRUMENTS

CHF thousand	AT SIGHT	CANCELLABLE	DUE				TOTAL
			WITHIN 3 MONTHS	WITHIN 3 TO 12 MONTHS	WITHIN 12 MONTHS TO 5 YEARS	AFTER 5 YEARS	
Assets/financial instruments							
Liquid assets	16 258 114	-	-	-	-	-	16 258 114
Amounts due from banks	1 309 154	-	13 638	-	-	-	1 322 792
Amounts due from securities financing transactions	-	-	619 108	-	-	-	619 108
Amounts due from customers	576 803	4 979 111	1 650 345	917 071	224 442	12 314	8 360 086
Trading portfolio assets	79 453	-	-	-	-	-	79 453
Positive replacement values of derivative financial instruments	1 059 140	-	-	-	-	-	1 059 140
Other financial instruments at fair value	529 280	-	-	-	-	-	529 280
Financial investments	613 388	-	1 113 403	1 173 492	3 479 188	1 593 114	7 972 585
Total 31.12.2017	**20 425 332**	**4 979 111**	**3 396 494**	**2 090 563**	**3 703 630**	**1 605 428**	**36 200 558**
Total 31.12.2016	**18 840 216**	**4 929 480**	**5 687 612**	**3 036 909**	**4 483 607**	**573 785**	**37 551 609**

CHF thousand	AT SIGHT	CANCELLABLE	DUE				TOTAL
			WITHIN 3 MONTHS	WITHIN 3 TO 12 MONTHS	WITHIN 12 MONTHS TO 5 YEARS	AFTER 5 YEARS	
Debt capital/financial instruments							
Amounts due to banks	882 388	-	-	-	-	-	882 388
Liabilities from securities financing transactions	-	-	1 332 492	-	-	-	1 332 492
Amounts due in respect of customer deposits	29 143 948	80 890	143 940	-	-	-	29 368 778
Trading portfolio liabilities	943	-	-	-	-	-	943
Negative replacement values of derivative financial instruments	1 049 731	-	-	-	-	-	1 049 731
Liabilities from other financial instruments at fair value	566 202	-	-	-	-	-	566 202
Total 31.12.2017	**31 643 212**	**80 890**	**1 476 432**	**-**	**-**	**-**	**33 200 534**
Total 31.12.2016	**34 000 107**	**-**	**934 236**	**-**	**-**	**-**	**34 934 343**

19. PRESENTATION OF ASSETS AND LIABILITIES BY DOMESTIC AND FOREIGN ORIGIN IN ACCORDANCE WITH THE DOMICILE PRINCIPLE

Assets (CHF thousand)	31.12.2017		31.12.2016	
	SWISS	FOREIGN	SWISS	FOREIGN
Liquid assets	15 076 969	1 181 145	13 319 101	867 080
Amounts due from banks	464 995	857 797	455 579	1 312 952
Amounts due from securities financing transactions	585 000	34 108	997 000	-
Amounts due from customers	774 093	7 585 993	788 287	6 908 524
Trading portfolio assets	21 570	57 883	26 146	52 937
Positive replacement values of derivative financial instruments	281 701	777 439	371 504	1 154 825
Other financial instruments at fair value	77 790	451 490	85 842	482 000
Financial investments	2 692 881	5 279 704	2 932 781	7 797 051
Accrued income and prepaid expenses	123 207	310 874	109 446	220 295
Non-consolidated participations	2 021	4 929	3 306	5 090
Tangible fixed assets	432 796	26 255	448 500	29 202
Other assets	136 095	51 043	121 617	72 343
Total assets	**20 669 118**	**16 618 660**	**19 659 109**	**18 902 299**

Liabilities (CHF thousand)	31.12.2017		31.12.2016	
	SWISS	FOREIGN	SWISS	FOREIGN
Amounts due to banks	552 015	330 373	501 628	733 766
Liabilities from securities financing transactions	842 209	490 283	775 267	1 256
Amounts due in respect of customer deposits	8 156 765	21 212 013	8 542 189	22 270 040
Trading portfolio liabilities	311	632	3 740	5 324
Negative replacement values of derivative financial instruments	246 454	803 277	211 525	1 308 698
Liabilities from other financial instruments at fair value	558 207	7 995	568 121	12 789
Accrued expenses and deferred income	381 677	415 505	308 459	300 164
Other liabilities	155 552	63 776	195 522	53 712
Provisions	218 620	4 275	176 152	6 992
Total equity	2 528 714	319 125	2 200 959	385 105
Equity owners' contribution	684 922	-	613 350	152 191
Capital reserve	11 664	-	10 861	803
Retained earnings reserve	1 595 842	-	1 394 565	-
Currency translation reserve	(17 086)	-	(7 769)	-
Consolidated profit for the year	253 372	319 125	189 952	232 111
Total liabilities	**13 640 524**	**23 647 254**	**13 483 562**	**25 077 846**

20. BREAKDOWN OF TOTAL ASSETS BY COUNTRY (DOMICILE PRINCIPLE)

Assets (CHF thousand)	31.12.2017		31.12.2016	
	ABSOLUTE	SHARE AS %	ABSOLUTE	SHARE AS %
Switzerland	20 669 118	55%	19 659 110	51%
Europe	9 225 665	25%	10 674 027	28%
The Americas	5 463 916	15%	6 260 769	16%
Asia	1 486 275	4%	1 395 477	4%
Africa and Oceania	442 804	1%	572 025	1%
Total assets	**37 287 778**	**100%**	**38 561 408**	**100%**

21. BREAKDOWN OF TOTAL ASSETS BY CREDIT RATING OF COUNTRY GROUPS (RISK DOMICILE VIEW)

RATING ACCORDING TO FINMA MAPPING TABLES	NET FOREIGN EXPOSURE 31.12.2017		NET FOREIGN EXPOSURE 31.12.2016	
	CHF THOUSAND	SHARE AS %	CHF THOUSAND	SHARE AS %
1 & 2	11 703 436	78%	14 317 544	80%
3	745 067	5%	641 459	4%
4	1 314 577	9%	1 523 548	9%
5	91 820	1%	134 073	1%
6	79 108	0%	44 284	0%
7	24 625	0%	23 675	0%
Unrated	983 314	7%	1 022 070	6%
Total	**14 941 947**	**100%**	**17 706 653**	**100%**

– *Comments on the rating system used*

The Pictet Group uses credit ratings provided by FINMA in its rating concordance ('mapping') tables to calculate capital-adequacy requirements. The lowest rating assigned by Moody's, Standard & Poor's or the OECD is the one taken for each country.

22. PRESENTATION OF ASSETS AND LIABILITIES BROKEN DOWN BY MOST SIGNIFICANT CURRENCIES (AT 31 DECEMBER 2017)

Currencies (CHF thousand)	CHF	EUR	USD	GBP	JPY	OTHERS	TOTAL
Assets							
Liquid assets	15 072 169	1 183 207	1 938	376	9	415	16 258 114
Amounts due from banks	99 535	316 967	436 448	42 347	144 839	282 656	1 322 792
Due from securities financing transactions	585 000	-	34 108	-	-	-	619 108
Amounts due from customers	688 795	3 933 579	2 739 780	554 232	174 922	268 778	8 360 086
Trading portfolio assets	23 840	6 665	46 604	596	1 705	43	79 453
Positive replacement values of derivative financial instruments	853 767	93 556	36 039	3 244	2 439	70 095	1 059 140
Other financial instruments at fair value	63 190	72 559	338 067	20 563	2 618	32 283	529 280
Financial investments	2 477 764	2 311 345	2 065 222	330 154	-	788 100	7 972 585
Accrued income and prepaid expenses	165 431	134 581	82 812	23 886	23 886	3 485	434 081
Non-consolidated participations	5 434	-	965	43	-	508	6 950
Tangible fixed assets	440 203	4 685	-	6 768	3 516	3 879	459 051
Other assets	120 730	37 088	14 138	2 802	9 316	3 064	187 138
Total assets shown in the balance sheet	**20 595 858**	**8 094 232**	**5 796 121**	**985 011**	**363 250**	**1 453 306**	**37 287 778**
Delivery entitlements from spot exchange, forward forex and forex options transactions	150 355 538	90 840 574	115 001 327	16 671 500	8 961 182	11 910 827	393 740 948
Total assets	**170 951 396**	**98 934 806**	**120 797 448**	**17 656 511**	**9 324 432**	**13 364 133**	**431 028 726**

Currencies (CHF thousand)	CHF	EUR	USD	GBP	JPY	OTHERS	TOTAL
Liabilities							
Amounts due to banks	155 434	288 630	310 309	32 324	27 853	67 838	882 388
Liabilities from securities financing transactions	-	947 845	19 490	365 157	-	-	1 332 492
Amounts due in respect of customer deposits	7 481 688	9 134 026	9 286 986	1 690 076	326 104	1 449 898	29 368 778
Trading portfolio liabilities	-	62	869	-	12	-	943
Negative replacement values of derivative financial instruments	825 628	86 056	57 901	3 358	2 600	74 188	1 049 731
Liabilities from other financial instruments at fair value	87 100	77 292	345 816	20 658	2 831	32 505	566 202
Accrued expenses and deferred income	399 114	215 422	7 864	108 750	19 183	46 849	797 182
Other liabilities	219 328	-	-	-	-	-	219 328
Provisions	217 450	5 445	-	-	-	-	222 895
Total equity	2 847 839	-	-	-	-	-	2 847 839
Equity owners' contribution	684 922	-	-	-	-	-	684 922
Capital reserve	11 664	-	-	-	-	-	11 664
Retained earnings reserve	1 595 842	-	-	-	-	-	1 595 842
Currency translation reserve	(17 086)	-	-	-	-	-	(17 086)
Consolidated profit for the year	572 497	-	-	-	-	-	572 497
Total liabilities shown in the balance sheet	**12 233 581**	**10 754 778**	**10 029 235**	**2 220 323**	**378 583**	**1 671 278**	**37 287 778**
Delivery obligations from spot exchange, forward forex and forex options transactions	158 751 477	88 056 915	110 775 005	15 480 445	8 954 485	11 722 621	393 740 948
Total liabilities	**170 985 058**	**98 811 693**	**120 804 240**	**17 700 768**	**9 333 068**	**13 393 899**	**431 028 726**
Net position per currency	**(33 662)**	**123 113**	**(6 792)**	**(44 257)**	**(8 636)**	**(29 766)**	**-**

NOTES TO OFF-BALANCE SHEET POSITIONS

23. BREAKDOWN AND EXPLANATION OF CONTINGENT ASSETS AND LIABILITIES

CHF thousand	31.12.2017	31.12.2016
Guarantees to secure credits and similar	5 584 718	4 474 851
Total contingent liabilities	**5 584 718**	**4 474 851**
Contingent assets arising from tax losses carried forward	1 678	2 822
Total contingent assets	**1 678**	**2 822**

'Contingent liabilities' encompass guarantees issued on clients' behalf and liabilities arising out of commitments contracted by clients in private-equity transactions. As is the case with Lombard loans, these liabilities are secured by client assets pledged as collateral.

24. BREAKDOWN OF FIDUCIARY TRANSACTIONS

CHF thousand	31.12.2017	31.12.2016
Fiduciary investments with third-party companies	17 015 534	14 472 876
Fiduciary transactions arising from securities lending and borrowing, which the bank conducts in its own name for the account of customers	1 215 454	1 200 900
Total fiduciary transactions	**18 230 988**	**15 673 776**

25. BREAKDOWN OF ASSETS UNDER MANAGEMENT OR CUSTODY

– *Breakdown of assets under management or custody*

CHF billion	31.12.2017	31.12.2016
Assets in collective investment schemes managed by the bank	174.0	148.9
Assets under discretionary asset management agreements	100.0	86.9
Other assets under custody	362.1	340.9
Total assets under management or custody (incl. double counting)	**636.1**	**576.7**
of which, double counting	127.2	114.8
Total managed assets excl. double counting	**508.9**	**461.9**

– *Change in assets under management or custody*

CHF billion	2017	2016
Total assets under management or custody (including double counting) - beginning of year	576.7	543.1
+/- Net new money inflow or net new money outflow	5.1	16.3
+/- Price gains/losses, interest, dividends and currency gains/losses	54.3	17.3
Total assets under management or custody (including double counting) - end of year	**636.1**	**576.7**

The nature of the services provided to clients and the reason for clients holding assets at the Bank determine how the assets are classified. As such, assets under management or custody include the assets of clients for which value-added services are provided. Said services are mainly investment advice and discretionary asset management. Pictet funds and third-party funds not managed by the Group are also included in this category.

Assets are classified at the individual account level. As such, only the assets for which value-added services are provided are included in this category.

In contrast, the assets of clients for which the Pictet Group provides only basic safekeeping services are not counted when calculating assets under management or held in custody.

If the nature of a client's relationship with the Pictet Group changes, the classification of the client's assets is systematically reviewed. This change may, if necessary, result in net new money inflows or net new money outflows being acknowledged.

If different types of services are provided for the same assets, the assets will be counted twice. Practically speaking, these are assets under custody or discretionary management agreements that are invested in collective investment schemes managed by the Bank.

Net new money inflows are made up of a combination of several factors. Firstly, inflows of funds resulting from the acquisition of new clients as well as new funds from existing clients. Secondly, outflows, subtracted from total inflows, comprising partial or total withdrawals of existing clients' assets. Changes in the classification of existing clients' assets are also taken into account in these inflows and outflows. The calculations are based on the direct method and include deposits and withdrawals in cash and financial assets (mainly securities or precious metals). Changes in the value of assets caused by market effects (particularly fluctuations in prices or exchange rates or interest or dividend payments) or interest charges, fees or expenses debited from clients are not included in the calculation of net inflows/outflows

NOTES TO THE INCOME STATEMENT

26. BREAKDOWN OF THE RESULT FROM TRADING ACTIVITIES AND THE FAIR VALUE OPTION

– Breakdown by business area

CHF thousand	2017	2016
Trading for the account of the customers	132 292	134 323
Trading for own account	58 886	51 258
Trading activity total	191 178	185 581

Trading activities for the Group's own account are aimed essentially at mitigating risk resulting from client orders.

– Breakdown by underlying risk and based on the use of the fair value option

CHF thousand	2017	2016
Result from trading activities from:		
Interest-rate instruments (incl. funds)	4 302	2 493
Equity securities (incl. funds)	9 296	7 985
Foreign currencies/precious metals/commodities	177 580	175 103
Total result from trading activities	**191 178**	**185 581**
of which, from fair value option	5 854	6 379
of which, from fair value option on assets	5 854	6 379

27. DISCLOSURE OF MATERIAL REFINANCING UNDER ‘INTEREST AND DISCOUNT INCOME AS WELL AS MATERIAL NEGATIVE INTEREST’

– Refinancing income

The refinancing costs of the trading portfolios are offset directly under ‘Income from trading activities and the fair value option’.

– Negative interest

CHF thousand	2017	2016
Negative interest on lending business (decrease in interest and discount income)	71 878	24 436
Negative interest on borrowing business (decrease in interest expense)	30 697	22 112

28. BREAKDOWN OF PERSONNEL EXPENSES

CHF thousand	2017	2016
Salaries	1 026 369	906 003
of which, expenses relating to alternative forms of variable compensation	187 317	125 201
Social insurance benefits	218 648	190 855
Other personnel expenses	29 488	33 106
Total	**1 274 505**	**1 129 964**

29. BREAKDOWN OF GENERAL AND ADMINISTRATIVE EXPENSES

CHF thousand	2017	2016
Office space expenses	71 867	70 567
Expenses for information and communications technology	188 848	184 340
Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses	14 051	15 493
Fees of audit firms	4 964	5 019
of which, for financial and regulatory audits	3 540	3 637
of which, for other services	1 424	1 382
Public relations	35 716	41 702
Travel	36 142	37 101
Taxes	21 634	21 326
Other operating expenses	57 601	68 127
Total	**430 823**	**443 675**

30. EXPLANATIONS REGARDING MATERIAL LOSSES, EXTRAORDINARY INCOME AND EXPENSES, AS WELL AS MATERIAL RELEASES OF HIDDEN RESERVES AND VALUE ADJUSTMENTS AND PROVISIONS NO LONGER REQUIRED

CHF thousand	2017	2016
Changes to provisions and other value adjustments, losses	(32 770)	(16 363)
Extraordinary income	390	1 551
Extraordinary expenses	(20)	(130)

The detailed breakdown of value adjustments and provisions is shown in the table presenting value adjustments and provisions in annex 14.

31. PRESENTATION OF THE OPERATING RESULT BROKEN DOWN BY DOMESTIC AND FOREIGN ORIGIN, ACCORDING TO THE PRINCIPLE OF PERMANENT ESTABLISHMENT

(CHF thousand)	2017		2016	
	SWISS	FOREIGN	SWISS	FOREIGN
Interest and discount income	149 565	28 147	83 021	9 995
Interest and dividend income from financial investments	34 890	33 991	63 847	44 694
Interest expense	4 014	5 946	(7 061)	4 144
Gross result from interest operations	**188 469**	**68 084**	**139 807**	**58 833**
Changes in value adjustments for default risks and losses from interest operations	1 076	-	(958)	-
Subtotal net result from interest operations	**189 545**	**68 084**	**138 849**	**58 833**
Commission income from securities trading and investment activities	1 385 630	1 385 484	1 243 071	1 160 253
Commission income from lending activities	3 173	1 136	2 963	1 500
Commission income from other services	24 201	(2 432)	22 758	(5 714)
Commission expenses	(224 959)	(504 516)	(209 497)	(427 830)
Subtotal result from commission business and services	**1 188 045**	**879 672**	**1 059 295**	**728 209**
Result from trading activities and the fair value option	**138 748**	**52 430**	**129 273**	**56 308**
Income from other non-consolidated participations	3 753	-	4 066	-
Result from real estate	1 842	463	1 395	495
Other ordinary income	71	-	52	36
Other ordinary expenses	(1)	-	-	-
Subtotal other result from ordinary activities	**5 665**	**463**	**5 513**	**531**
Personnel expenses	(837 137)	(437 368)	(749 209)	(380 755)
General and administrative expenses	(283 826)	(146 997)	(288 156)	(155 519)
Subtotal operating expenses	**(1 120 963)**	**(584 365)**	**(1037 365)**	**(536 274)**
Value adjustments on participations, depreciation and amortisation of tangible fixed assets and intangible assets	(36 417)	(12 093)	(32 769)	(11 626)
Changes to provisions and other value adjustments and losses	(30 756)	(2 014)	(12 901)	(3 462)
Operating result	**333 867**	**402 177**	**249 895**	**292 519**
Extraordinary income	390	-	223	1 328
Extraordinary expenses	(20)	-	(423)	293
Taxes	(80 865)	(83 052)	(59 743)	(62 029)
Consolidated profit of the year	**253 372**	**319 125**	**189 952**	**232 111**

32. PRESENTATION OF CURRENT TAXES, DEFERRED TAXES AND DISCLOSURE OF TAX RATE

CHF thousand	2017	2016
Provisions for deferred taxes	13 365	14 460
Current tax expenses	150 552	107 312
Total taxes	**163 917**	**121 772**
Average tax rate	**22.3%**	**22.5%**

Report of the auditor

to the Board of Partners of Pictet & Cie Group SCA

Carouge

Report of the auditor on the consolidated financial statements of Pictet Group

On your instructions, we have audited the consolidated financial statements of Pictet Group, which comprise the balance sheet, income statement, cash flow statement, statement of changes in equity and notes (pages 6 to 10 and 22 to 72), for the year ended 31 December 2017.

Board of Partners' responsibility

The Board of Partners is responsible for the preparation of the consolidated financial statements in accordance with accounting rules for banks, securities dealers, financial groups and conglomerates (ARB) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Partners is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2017 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with accounting rules for banks, securities dealers, financial groups and conglomerates (ARB) and comply with Swiss law.

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pwc

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (art. 728 CO and art. 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with art. 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Partners.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers Ltd

Christophe Kratzer Emmanuel Genequand

Audit expert
Auditor in charge

Geneva, 25 April 2018

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